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The company law review committee has recommended expanding NFRA's oversight to certain wrongful deeds of senior company executives and lapses of auditors other than their professional misconduct, a person familiar with the discussions in the government said

NEW DELHI : The National Financial Reporting Authority (NFRA) will get more powers to act against auditors and company executives if the recommendations of an expert panel that reviewed the Companies Act win government approval.

According to a person familiar with the discussions in the government, the company law review committee has recommended expanding NFRA's oversight to certain wrongful deeds of senior company executives and lapses of auditors other than their professional misconduct.

The audit regulator may get powers to seek information from directors, key managerial people and company promoters and take action against them when a statutory auditor is being investigated for a violation of law, the person cited above said on condition of anonymity. This means that in case of a collective failure or a fraud involving collusion between the auditor and the company's top brass, the auditor will not be the only one who will face regulatory action.

An email sent to the corporate affairs ministry on Sunday seeking comments for the story remained unanswered at the time of publishing.

The Institute of Chartered Accountants of India (ICAI), the accounting and auditing profession's self-regulator which takes disciplinary action against erring auditors, often finds it hard to obtain information from top company executives.

Expanding NFRA's regulatory ambit to cover such instances will ensure that along with an erring auditor, the management and major shareholders will be held accountable, the person cited above said.

Directors play a vital role in preparing the company's financial statements and maintaining records.

The committee on company law review also recommended more powers to NFRA for making regulations with adequate safeguards, similar to what other regulators such as the Insolvency and Bankruptcy Board of India (IBBI) have.

The panel was led by Rajesh Verma, secretary in the ministry of corporate affairs. It included experts like Kotak Mahindra Bank managing director and chief executive officer Uday Kotak, former Lok Sabha secretary general T.K. Viswanathan and former ICAI president Amarjit Chopra.

The NFRA may also get more teeth to deal with auditor lapses under the Companies Act, which may not qualify as 'professional or other misconduct. This would include, for example, failure to file annual returns.

Last October, NFRA had disclosed the names of more than a thousand statutory auditors who had not filed their annual returns, painting a grim picture of the audit profession in India.

The annual return to be filed by an auditor gives a host of details ranging from its registration and PAN number to details of fee received, details of the partners and the number of employees.

In the NFRA-2 form, the auditor also has to disclose if the firm has quit the audit assignment of any company in the previous three years or has withdrawn its audit report on financial statements or has withdrawn its consent to use its name in a report in the preceding three years.

“Strengthening the audit framework and the regulator is critical for the corporate sector and for India to be a globally competitive economy,” said Vijay Kapur, former director at the Institute of Chartered Accountants of India.

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